ARIZONA DEPARTMENT OF ECONOMIC SECURITY, RESEARCH ADMINISTRATION

Fall 2001

Arizona Quarterly Review

November 29, 2001

Slowdown Deepens for Arizona in the Third Quarter of 2001

Arizona had a greater-than-seasonal loss of 35,500 nonfarm jobs in the third quarter of 2001 as a consequence of the deepening of the economic slowdown that began in the second quarter. The slump began in the state with the industry groups of manufacturing and business services. Then it spread in the third quarter to the industry groups of construction, transportation, communications and public utilities, trade and services. Finance, insurance, real estate and government were the only industries left unscathed by the deepening slowdown in the third quarter. The economic impacts of September 11th were only beginning to register in the third quarter figures, so it is likely that Arizona's workforce will reflect more clearly some of the affects in the fourth quarter.

Despite mounting layoffs, Arizona's seasonally adjusted unemployment rate remained relatively unchanged at 4.3 percent, according to the household survey. The rate of increasing joblessness outpaced the rise in the number of employed. While the rise in unemployment was typical for the third quarter, the increase in the number of people with jobs was less-than-typical. Unlike the trend before the third quarter, people were losing their jobs and were not being re-absorbed into the workforce.

Goods-producing industries cut 4,200 jobs, while service-producing industries lost 31,300 jobs. Government jobs were seasonally down by nearly 12,000 jobs, whereas the private sector purged almost 24,000 jobs.

Arizona's hard hit manufacturing industry lost nearly 3,100 jobs in the third quarter. Since the beginning of the slump that started in the second quarter, manufacturing's employment levels have been reduced by 5,400 jobs. Job losses have resulted in employment returning to 1999 levels. On the national level, the manufacturing downturn began one year earlier, during the second quarter 2000. Durable-goods manufacturing had the greatest amount of job losses with a reduction of 2,000. Machinery and electrical equipment was the hardest hit durable-goods sector with a loss of 1,300 jobs as it continued to suffer from over-capacity and slack demand for computer and telecommunications equipment. Primary metals lost 300 jobs while fabricated metals cut 400 jobs. Lumber and wood products lost 200 jobs. Aggregates remained unchanged over-the-quarter. Unlike the rest of durables, aircraft and missiles had a greater-than-average increase of 500 jobs with the assistance of military and civilian aerospace contracts. Nondurable goods manufacturing lost 1,100 jobs as cyclical and structural trends continued. The majority of these job losses originated in small firms classified as other nondurable manufacturers. These other nondurable job losses signaled a deepening weakness in the manufacturing industry and wider economy. Printing and publishing had a greater-than-average loss of 200 jobs as the demand for electronic and print media slowed with the rest of the economy. Food and kindred products had a less-than-seasonal increase of 100 jobs.

Construction lost 1,000 jobs, the first reduction in the third quarter reduction since 1986. Prior to the third quarter of 2001, job growth in this industry was the sole remaining booster to the economy as manufacturing soured and the stock markets became volatile. People invested their money in housing, rather than the stock markets. Construction strength helped to boost other industries such as the lumber and aggregates sectors in manufacturing and the industry group of FIRE. With the arrival of the third quarter, the economic climate changed as mounting layoffs caused consumer confidence to waver along with the desire to purchase big-ticket items, such as a new home. As a consequence, housing construction activity began to cool down on both the national and state levels.

Mining lost 100 jobs in the non-copper sectors as a result of continued downward pressures. Cyclical trends have reduced the demand and price for metals including copper.

Transportation, communications and public utilities (TCPU) lost 300 jobs because of weakness in the majority of its sectors. Transportation lost 200 jobs as consequence of shrinking demand for travel and shipping. In recent years, employment in this sector typically increases during the third quarter in preparation for the seasonal events in the fourth

(continued on page 2)

quarter. Communications and public utilities lost 100 jobs because of persistent problems of over-capacity and slowing demand for services in computer and telecommunications.

Trade employment had a greater-than-seasonal loss of 4,400 jobs. Wholesale trade pared 700 jobs as a result of the manufacturing slowdown. Retail trade lost 3,700 jobs. Bars and restaurants had slightly less-than-seasonally expected loss of 3,500 jobs. Food stores experienced a greater-than-average increase of 400 jobs. Automotive had a less-than-average gain of 400 jobs as a result of slowing car and truck sales. General merchandise and apparel had an unanticipated job loss with a decrease of 400. Prior to the current year, this sector had started to staff up during the third quarter in preparation for the arrival of winter visitors, the new school year and the holidays. These stores were unable to delay their end-of-year hiring because of the labor shortage produced by the booming economy of the last few years. However, conditions have changed with the economic slowdown of this year. Cooling retail sales and rising unemployment no longer justified earlier-than-normal increases in holiday staff.

Services endured a cyclical loss of 15,400 jobs. Business services pared 12,700 jobs as the demand continued to evaporate for temporary help and technical services in engineering, management, computers and telecommunications. Since the onset of the slowdown in Arizona, business services has lost 17,400 jobs. Hotels and other lodging posted an average, seasonal loss of 2,000 jobs after an atypical, flat second quarter. Declining travel demand, however, suggested slower job growth in this sector. Unlike the rest of services, health services posted a greater-than-average gain of 2,200 jobs as a consequence of increasing demand from a growing and aging population. Cost minimization pressures in this sector have resulted in layoffs in private health insurance providers, particularly after the loss of major contracts. Some government funded health care providers have dissolved as a result of public insurance programs not increasing their rates of compensation to offset rising provider costs.

Finance, insurance and real estate (FIRE) was the only private industry for the third quarter to gain jobs (+300) even though the increase was less-than-seasonally expected. Job growth was sustained by falling interest rates increasing the demand for the refinancing of consumer debt, especially home mortgages. Unlike falling interest rates, volatile stock markets and softening home sales have placed downward pressure on job growth.

Government showed a less-than-seasonal decrease of 11,500 jobs as a result of the change in the school year, so much of this 3rd quarter figure rests on being a timing issue. Seasonal decreases were the consequence of the release of faculty and staff for summer vacation by many public schools and universities on the traditional academic. The return of faculty and staff to public educational institutions on an alternative year-round academic calendar for the start of a new academic year reduced the typical seasonal job losses. Continued growth of the state's school age population combined with a slowing economy was causing enrollment to swell and the demand to rise for additional faculty and staff.

Overall, the 3rd quarter figures showed Arizona's economy showed confirming signs of the cyclical slowdown. With job losses broadening to most industries, it appears more likely that the FIRE group will incur some of the eventual employment losses as well.

Note: The end of the year change in the number of jobs is the change in employment for the fourth quarter compared to the same quarter of the last year. The growth rate is the average over the quarter growth rate for the year.

Contact: For clarification or additional information, call (602) 542-3871

The Arizona Quarterly Report is on the Internet.
http://www.de.state.az.us/links/economic/webpage/index.html